

VISIT...

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- **Knowing the Rules of The Game and Following Them - Daytrading Discipline Tips**

● **Main Points:**

- Becoming a "disciplined trader" is the biggest challenge you will have to overcome if you are to succeed. You can learn all the tools and strategies, but if you lack the discipline to enter and exit trades mechanically based on the signals we teach, all is lost.
- What do we do about it? People are remarkably slow to change, and so I find it takes more than just telling people to be disciplined. It is helpful to include "systems"-type changes in your trading environment to make disciplined trading more natural for you, more automatic. For the fellow trekkers out there, in trading you have to be Spock, not Kirk. Be Kirk when you're spending the money, be Spock to earn it. Sound right?
- Like any business, using and acting on metrics (measurements), are critical to success here. Know when to hold and when to fold, know when to sweep profits off the table, know when to cut a loss small and try again. You can always buy the stock again, just "sit out" downtrends and buy on strength. Nassar said it well in his *How to Get Started in Electronic Daytrading* book that "stops are like fences to help the trader know when to enter and exit positions".
- I find that using "**Visual Reminders**" on the wall is a big help for me to maintain my discipline and focus for trading. Trading for consistent profits requires you to be businesslike and professional, not like a gambler walking into a casino (even pro gamblers have predefined win and loss limits they follow, which is more than most new traders have).
- Develop these in Powerpoint or Word, print them out and **tape them to the edges of your monitors**. My personal favorites are:
 - "Tight Stops - NO EXCEPTIONS",
 - "Critical to Your Success: Sell at SMALL STOPS"
 - "Do You Buy or Sell stocks Today? Is the Nasdaq/S&P Green or Red?"
 - "High-Percentage Daytrading for Daily Profits is Required"
 - "Discipline --> Success"
 - "Become Wealthy. Just Do It"
- Also **keep some of your trade records posted to the walls**, both winners and losers, so you can see what happened "by chance" vs. what happened because of a system you followed. Make your losses count for something, learn from the losses and develop countermeasures where possible to avoid repeating the mistake in the future. Over time, you should **develop a set of disciplined trading skills that serves you well**, based on previous winners and losers.
- All good traders will tell you discipline is the key to success; this lesson will share other tips on **how** you can develop the mindset of a disciplined trader. There's a good book out by the same title, Schwagers "Intro to Technical Analysis" also has a superb chapter on 82 trading rules ..a 'must buy' book. Look at these resources, they can help your trading.
- Setting **trade alerts** is also useful, have your software flag you when your stock has met a profit target or a stop point. Also using time of day patterns to your advantage will help (eg knowing that the market usually weakens from 11:30-1:30, or our 10-10:30 nasdaq bounce etc).

Examples:



First: Define your own personal specific "disciplined trading" areas for improvement - Check all that apply:

As a trader, I know based on my losses I need to work on improving these specific skills:

___ **Due Diligence (DD)**: I need to do a better job of my own stock research, vs relying on chatrooms or stock picking services to pick my stocks. I need to learn how to pick high-percentage stocks.

___ **Basic Technical Analysis (TA)** : Being able to correctly identify support/resistance levels & trendlines

___ **Advanced TA**: Knowing how to interpret and use RSI, stochastics, MACD and sector indexes

___ **Entering Trades Effectively - Buying Tops and Bottoms**: I need to do a better job of not buying 'false bottoms' or buying the high of the day for my trades

___ **Exiting Trades Effectively - Using Stop Losses**: I need to predetermine stop loss limits with more discipline and stop letting stocks go too far against me.

___ **Exiting Trades Effectively - Selling Too Soon**: I need to develop disciplined patience to let my winners run, so I do not take a small profit instead of a large profit

___ **Learning from My Successes and Failures**: The only bad failure is one that's repeated over and over again. I learn how to improve my trading based on my experiences, refining my trading approach over time until it becomes more systematic and less emotional and hunch-based.

In looking at the list, to this day I still check "all of the above" (except for DD); it's a career process.

Second: Make a personal commitment to yourself to change into a highly disciplined, efficient trader. At least for 80% of your trades.

You need to make a decision to run this like a business. It's not "fun, hey look my stock went up"; in the long run only those of us who take it seriously are still doing it 5 years later. Plan on trading for the next 5 years, profitably.

What do you need to do differently to run your personal "daytrading business" so that it is successful? Like any business, it involves hard work. Lots of self-study, practice, papertrading and small-share (100-200) trades to get the hang of mastering your emotions without it costing you a lot if you're wrong.

Add a **brief trading log** (journal) to your weekly trading habits, make it very brief and easy to follow, there are numerous downloadable powerpoint example logs in Modules 1 and 2 you can use to start with. **Look for patterns in your winning vs losing trades**, identify and eliminate bad trading behaviors (like learning how to golf, it's tough to break bad habits sometimes).

Discipline: Avoid most chatrooms. Beware of bad "idiot traders" out there, hucksters and professional market makers. Take the time to learn how to trade correctly.

Please **do not log into chat rooms** to follow sheep into bad low-percentage trades. If you must use chat rooms, learn from the few good educationally-oriented rooms, the "why was that a good trade, what were the indicators we used?" type of rooms. If they play cheap under-\$20 stocks then beware. If nobody says things like "semi's are strong today, the \$SOX is up, the trin is 1.4 and the \$tick is..." etc... then beware. If they're saying "ELOT is running, everyone jump on board...ELOT to 10" then press Alt-F4 immediately. :o

If you check into those rooms year over year you see a lot of new sheep, a few wolves, very few are still there for the long term, because they lost all their capital and now they're back at a day job talking about "gee the stock market is tough". Don't get whupped. Avoid bad chat rooms. I've spent many weeks in both free and pay chat rooms, amazed at the low level of information that's dribbled around out there. Learn to hear what a professional trader sounds like.

Aspiring New
Daytrader

=====>>>



Your Trading
Discipline is your
"safety balloon" that
protects your capital.

Pro market
makers and
Ripoff high-
priced chat room
pump and
dumpers who
want your money

=====>>>



Finally, develop a Disciplined Trading *Personal Action Plan*:

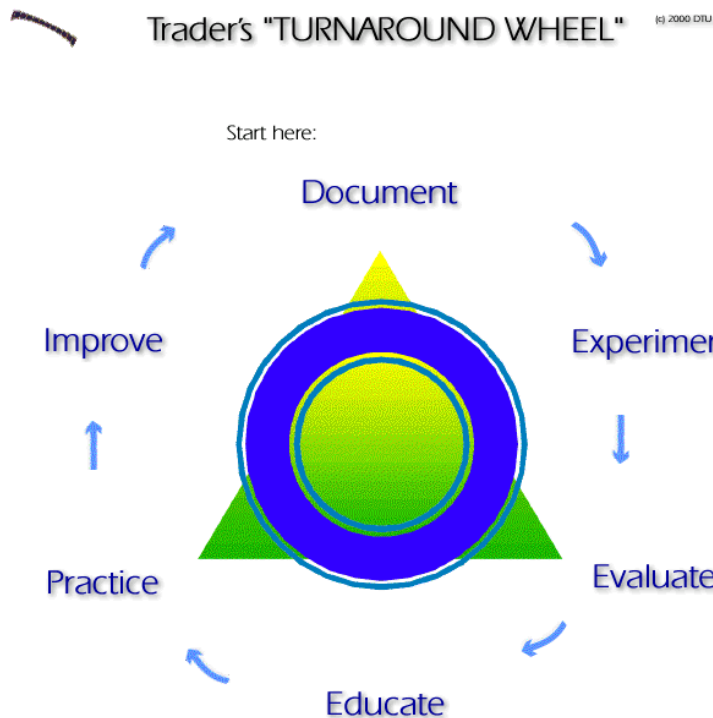
Let's look at making a plan to help you develop the discipline you need to succeed. Get out a 8 1/2 x 11 piece of paper and list the following:

- **Top 3 reasons why I've lost money** in the market trading overall.
- **Top 3 things I've done right** recently to either take a profit or limit a loss.
- **List of 3 techniques I am going to start using to be more disciplined** in my trading (eg taping reminders to monitors, putting trade confirmations on the wall, keeping a brief weekly trade journal).
- **One thing I will do to reinforce or reward myself for following my trading rules and discipline.**
Eg buy yourself lunch on days that you followed "the rules".
- **One thing I will do to 'punish' myself for not being disciplined and breaking my rules.** Try something fun, like "make yourself eat something you don't like on days you don't follow the rules". Simple but effective behavior mod tips that work to shape trader behavior to be more successful.

- [Minimizing Losses and How to "Turn the Corner"](#)

• **Main Points:**

- Are you tired of losing money in the market? A lot of "almost got it's?" or "oops I really missed it on that one!" or "my broker's getting rich why aren't I?"
- **Here is a step-by-step process designed to help you "turn the corner" and stop losing, to become consistently profitable trading in the market.** I can't promise that it will happen for you, as the real work (and profit/loss) is solely your responsibility. These are effective trading guidelines that we haven't covered already, put together in a logical model that we hope will help you start sweeping profits off the wall street table.
- **The bad news?** It's not easy. Nothing that's worth having, like financial independence, is ever easy. Trading stocks is tough work. You want to get rich, you have to work hard at it. It can, and has, been done, by thousands of other men and women. Why not join them?
- **The good news?** This process is designed to help you take control of your trading outcomes and should help you identify and take action on personal trading areas for improvement. Commit to it for 2 weeks and see how it does for you. It helped me get out of frustrating, frightening trade situations and develop a more experienced, relaxed, profitable professional trading style.



Let's look at how to successfully go through each step in the "Trader's Turnaround Wheel" to help recover on the road to profitable trading:

Document

It's well-known that "you can't improve what you don't understand". To understand how to trade more successfully, **you need to begin by documenting some of what you are doing**. Even if they are very brief bullet points, begin by keeping track of each of these:

- **Decision criteria** you are **currently using to enter** most of your trades (it's usually a combination of things), which of these are the most important to you: chart patterns/TA, momentum indicators like T&S, the price of the stock, the time of day, current news/cnbc mentions... Also make a note if you are trading on 'hunches' etc. vs technicals.
- **Decision criteria** you are **currently using to exit** the trade: do you have price/% 'targets' you follow (eg a retracement or breakthrough goal), momentum indicators,
- **Money and risk management**: this is an eye-opener, **do a "post mortem" on your last month's worth of trades**. What is your average gain per trade and average loss per trade? If we make that a ratio, what is it? Even money? 3:1 win:loss? 1:3 win:loss? what are your stops and how small/large have they been? You know you're supposed to define your stops/maximum risk before buying stock, what % of the time do you hold to your stops?

Experiment

The next step is to clearly identify which parts of your trading you can experiment with (your trading "variables") and define different alternatives for these. You may find, for example, that you do better at swing trading this year than in scalping/daytrading. That's fine. You need to find your best personal "trading style". Are you a cowboy? An analyst? What's your style?

The point is that you should not get locked into one particular trading style, especially if it is not profitable for you. Also, you may do "just ok" at one type of trading but do much, much better with a different style. Experimentation is the key. Give yourself permission to "try out" new ways to trade, until you settle on a successful personal trading style.

Some common areas to consider experimenting with in your trading include:

- **Which stocks you trade**: Nasdaq/NYSE, Internets, Semis, Retailers, Biotech etc.
- **How many shares you trade at a time**: Is your average trade size 300 shares? 100? 500? 1000?
- Your **average time in the trade** and what **time of day** you typically buy/sell stock.
- Your **trading software, broker and trading environment**. Try a few. See what works.

Let's say, for example, that you picked up some bad habits in a chat room and are using Datek to trade 500-share lots of junky stocks like ELOT. You've been losing. Well, try switching to better stocks using our trade criteria (Module 1), scale back to 200-300 share trades, try buying stocks around 10:30 on days that open down (looking at \$COMPQ/\$SPX), and use cyber or mbtrading and esignal vs. a free quote service. That stuff all makes a difference. Try out what's available. And, you decide to make your own trades and mute CNBC instead of following a bunch of losers in a chat room.

Evaluate

This is the easiest part, I suppose. Evaluate your daily Profit & Loss, measured in dollars, and put it on a graph. Use a spreadsheet if you want, plot your daily win/loss.

One thing I did that was helpful was to make a horizontal trading fractions checklist and place check marks near the amount of my wins/losses for each week. It was a tremendously helpful tool; below is an example of what it looks like; just make a similar one and place x's on it to record each trade you've made each week.

WINNING TRADES



NON-WINNING TRADES



What else can you do to evaluate your trading success? Part of it is to keep track of your emotions while in the trade: did you keep hope, greed and fear down while entering and exiting in logical, mechanical, professional manner? This takes a long time to get right.

Educate

Virtually everybody who has lost a fortune has also read a few daytrading books. Let's look at other ways you can get successful trading education:

- **Observe a professional day trader in action** - this is the best way, spend some time looking over the shoulder of a pro (and don't distract him/her with too many questions). You may be able to do this at a live daytrading brokerage firm, or through a training provider. NOTE: Be cautious of so-called "boot camps" that encourage hyper-active trading and then sell you a broker account as well; they just want you to "blow out" your account, giving them several thousand for the training and several thousand more in commissions or commission order flow. They should teach you money and risk management, using small shares, in slower-paced trades at first, not level 2 scalping 50 trades a day. I've heard plenty of horror stories. Check references thoroughly. Go one-on-one with a good trader, and **require the trainer/trader to show you his personal recent trade confirmations to prove he's a good trader**.
- **Learn from other traders**: see if you can get a "Daytraders of (your town)" group started as a way to network and swap stories with others who trade.
- **Seminars and workshops**: I'm sure some of these are great and most are not. Check references and ask for the email address/ph# of others who've attended, and really check it out. Don't waste days of your life and \$3,000 on something that isn't going to help you. **Carefully check the content outline** of the seminar and see if it's just basic information you've already learned or if they can teach you advanced level 2 trading techniques and chart patterns. Ask: **how much time** is spent on chart patterns, risk management and level 2? vs. the basics of "what's an index? how do you buy stock?" types of topics you can find anywhere. **Many traders make for poor trainers; they have no facilitation/platform skills and thus do a lot of one-way lecturing vs. interactive activities**. Check for the trainer's style: **ask how much time is spent in hands-on interactive learning? vs. listening to a lecture**. If all they do is lecture, ask to buy their audio/videotape/book instead!

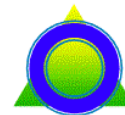
- **Spend at least 10-15 hours/week on your various learning activities** (including your time at DTU). You are attempting to learn a very complex and difficult subject: trading the financial markets has made some people wealthy and many people less wealthy. It's a zero-sum game. Don't let positions go too far against you. It's fine to go buy a bunch of books, but watching a pro trader is the best experience you can get.

Practice

Closely related to "experiment", you need to now try out various activities and trading styles to see which one best fits you as a trader. There is no "right way" or "wrong way" to trade *as long as you make money consistently*.

- Do not try out too many ideas at once, you need to isolate and optimize each part of your trading to develop the best combination possible. Try a new software package/broker for one week, try trading a different stock the next week, etc...practice until you assemble a successful trading style. Test it out.
- Practicing with paper trading is ok, but I'd encourage you to trade live as soon as you feel comfortable, because the "mental game of daytrading" is impossible to master until your money is on the line. Besides, slippage in real trades (eg trade delays, computer problems etc) needs to be experienced as well. Just start off slow, don't worry about commission break-evens too much, just **do 3-4 trades a day max on 100-200 shares of lower-priced stock with 5% stops to test out your ideas & minimize risk**. "*Capital is harder to replace than ideas are.*" (my quote).

Improve



Okay, we're at the last step in the wheel: improvement. It's a never-ending circle (or at least it doesn't end until you retire wealthy from your stock gains, which you should plan to do now.)

Go back over each step of the wheel and ask yourself: what am I leaving out? what else do I need to work on to get my trading %ages up?

Improvement is measured by your ability to carry out successful trades, in dollars. It's your P&L at the end of the day, nobody else's. Do not make dumb trading mistakes and give money to the other guy. He'll just go buy beer with it or something :).

How, specifically, does one implement trading improvements? Start with the process **measures** that we looked at above (number of trades, time in the trade, average P&L per trade etc). Then look for **incremental** improvements, "fine-tuning" your trading skills until you arrive at the best combination. It takes a heck of a lot of persistence and an unwavering desire and personal expectation to succeed. I had no doubt I could succeed at this, it's just a matter of time. The less time it takes the better.

Motivating Yourself to Trade Successfully: Do something worthwhile with your gains, like help your family, donate a bit to charity, whatever it takes to give you a motivation beyond the simple dollars. You'll find that when you're on a "mission for money" you can make great things happen; many of us need more than just the dollars to motivate us. I go out and buy hobby stuff, take the wife out for a nice dinner etc. as a reminder to myself as to why I'm doing all this. Find your own motivators. Make it happen.

- **Celebrating Victory: Trading Rewards and the Daytrading Lifestyle**

● **Main Points:**

- To become a successful trader, you must really believe that it can happen. Many people expect to lose unconsciously and therefore do. You must overcome this.
- Please educate yourself 10 times beyond what you normally would to effectively trade stocks. Buy at least 20-30 books on daytrading and technical analysis, and review this site often as well. Do not rely on stock picking sites and chat rooms, unless the emphasis is on **Why the trade was made**.
- By arming yourself with all of the knowledge available at DTU and other good resources, you will significantly put the odds in your favor for being a consistent trader.
- Read a lot of books, view a lot of tapes and develop your own trading style. There are no "magic chart pattern" setups, there is only learning how to trade like a professional. This takes time. Anyone who's traded longer than 2 weeks know that pros play against amateurs who try to buy dips on higher highs higher lows etc... that's why theres so many reversals and headfakes out there in 1999-2000 trading.
percentage trading opportunities. Basic TA is not enough to win, though it's a start.
- There is a very long learning curve involved in trading stocks profitably - you need to reinforce your effort, energy, and money spent in pursuit of learning how to trade by giving yourself small incremental rewards when you do things right.



- **How do you celebrate victory?** If you're like me, you'd rather beat yourself up over a dumb trade rather than pat yourself on the back for making a good trade....perhaps it's human nature.
- **You need Energy**, and small rewards (like taking yourself out to lunch or dinner, or buying the latest trading book etc.) will help motivate you to continue your efforts.
- **Do Not** reward yourself for a winning trade that you got by breaking the rules (eg doubling down or holding through a long dip). In the long run, those plays will eat your capital.
- **Reward yourself for being a Consistent, Disciplined trader** that follows a trade plan, whenever it pays off for you.
- You can make a living trading by being right manage your money and risks properly. It's the risk management piece that costs most people their capital, not the trade entry side of it.
- This lesson will walk you through some techniques for reinforcing winning trading skills that you are developing.
- Also [review this link](#) from the homepage for a bit on "Daytrading Rewards".

What Motivates you To Trade?

Personal (Inside) Motivators:

These are things that are related to your personal values and actions that get you "pumped up" to trade from within yourself.

Make a mental check - Which of the following are most motivating for you?



POSITIVE

- Your sense of satisfaction from executing a trade correctly
- You value not losing money, preserving your capital.
- You want to develop the trading skills to gain profits.
- You're motivated by learning new trading strategies and skills.

External Motivators:

These are motivators that come from outside of you that reinforce your trading skills.

Make a mental check - Which of the following are most motivating for you?

- Money. Lots of nice trading profits.
- A new place to live, bigger & nicer.
- A different car to drive.
- Upgrade computer hardware.
- New clothes.
- Afford better restaurants. No more 99-cent food. :o
- Praise from family/friends.
- Independence from having to work for someone else to get a paycheck

NEGATIVE:

- Fear, Hope, Greed
- Sense that you need to impress family and friends with home-run trades.
- Apprehension, worry, concern over personal trading skills.

What else motivates you to trade better, from inside?

for doing what they tell you to do.

- Geographic flexibility, being able to live anywhere you choose, as long as the internet connection's good.
- Ability to provide better for your family, give them nicer things.

What else motivates you to trade better, from outside?

Note: Although they may seem less important at first, it's really the personal motivators that often have the most genuine power over your results.

Figure out your targets and methods to acquire them before trading. Then figure out why you should care about trading anyways.

Realize that a Trader is a Trader, eg you are buying and selling something, and you need to become good at prices. You need to become good at timing.

And, you need to become great at mastering your emotions and developing the skills that will enable you to compete with professionals. Never gamble or enter an uncertain trade. Learn to spot the high-potential setups and play them, with small stops and small shares, until you become good. Then increase size and tighten up stops, to take more profit at lower risk.

The Daytrading Lifestyle

Here are the four steps you need to get through to gain a daytrading lifestyle. How long will each one take you?

It could very well be a year in each phase. Or it could be a matter of months in each one. It's all up to you and your personal skills and temperament. The key is to make daily progress towards reaching each new step. Here they are:

1st - Stop the Losing: Learning to Trade

2nd - Getting to "Breakeven-Trading"

3rd - Taking Small Consistent Profits

4th - Trading in Size for Large Gains

THEN, you get to where you're:

Living the Life

I'm no millionaire daytrader playing with \$200,000, I have a decent capital base I use to make a living trading, and it works.

The key is getting thru the learning curve as painlessly as possible, while learning everything you can, constantly taking notes and watching the market.

Do you think that stock picking sites and chatrooms are useful? The educational ones are, but many are not... learn how to trade independently of CNBC and chatrooms. They were a huge waste of time when I was first learning. Do your stock screens with the free www.bigeasyinvestor.com, use www.quotetracker.com to follow a portfolio of a few hundred stocks, watch for breakouts and news etc.

Living an independent lifestyle is very important to me personally, I think that living in hawaii fulltime and spending more time with my family is great - I hope you can also achieve your goals and profits by becoming a trader.

By the way, that's very important, to **set in your mind's eye the self-image of you trading stocks professionally**, with an educated eye. You knew why you bought and sold the stock at the prices and times and share sizes you did. You weren't looking for a magic bullet or a "good stock pick" to follow... you learned how to recognize plays **on your own**, and because of your continued hard, intelligent work you learned how to become a stock trader. Not a stock-pick follower, **a trader in your own right**.

Please realize that it's difficult, I keep saying this because I see a ton of undereducated amateur gamblers in the chat rooms who lose their money. After the April selloff/crash the free chat room members dropped by 30-40%! Wow a lot of guys went broke and are now flipping burgers or something. Don't let it happen to you.

Learn how to trade professionally, not to try to make "lucky" trades now and then. That's rubbish, and in the long run you'll lose, just like 95% of the people who go to Las Vegas. Ask any local, they don't gamble. They have to pay the rent. Vegas businessmen didn't build those multimillion dollar resorts out of thin desert air, they built the playground out of the public's lost money. The bank and financial centers are built in part from the trading winnings made at the expense of others as well. It's a leapfrog game. Don't be a gambler, be an educated trader, and make some real money out there.

Your goal should be to make a living at this, or at least rake in consistent profits, week after week. Sure, it takes hard work. Is it worth it? Yes, if you have discipline, intelligence and persistence. No, if you're lazy and want easy money. No such thing.

PERSONAL REWARDS FROM THE DAYTRADING LIFESTYLE:

Finally, I want to ask you to take out a piece of paper and list out 10 things you want to achieve as a result of your trading activities. These can be financial or non-financial...anything that makes it all worthwhile for you.

What rewards would compel you to put in all the enormous energy and work it takes to become a professional trader? What gets your enthusiasm up in terms of things you could do with extra capital? Remember, that extra capital is won \$300, \$800, \$1100 at a time, very rarely do traders take huge gains consistently, its the small consistent payoffs you're after. You can only get that with a consistent set of trade rules.

Trade well and prosper!